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185 society still mainly agricultural in structure into one highly industrialized.

471 At the time when the Three-year Plan was conceived and started, the structure of Hungarian industry was by and large 655 similar to that of any Western country which had nationalized former private monopolies. Important steps had been taken during the preceding period towards shaping this structure. Coal mining was nationalized in January 1946, heavy industry —metallurgy and the two leading engineering concerns with their subsidiaries—by the end of that year. The nationalization of the electric power stations was enacted in 1946 and that of long-distance power lines early in 1947. That private monopolies were to be superseded by public control was a principle supported by all the parties participating in the Government. It had, in particular, the endorsement of the Smallholders' Party, which then held the majority within the governing coalition. This party favoured private ownership except of capitalistic monopolies.

The decision to take over the big banks into public ownership was in line too with the principle of nationalizing monopolies. Five leading banks controlled about 80 per cent of the whole banking business, and, through a system of ramified participation, commanded considerable influence in industry. Although the law on bank nationalization, including that of the National Bank, was passed only late in 1947, State control was virtually introduced in June of that year, that is, before the start of the Plan. In mining and industry the nationalized portion was run on the principle of rigid centralization. The former independent enterprises in coal mining on the one hand and in heavy industry on the other were placed under central administrative bodies. In banking a more indirect method was chosen. A Board was set up for the co-ordination of activities.

In 1947, when Hungary embarked on planned economy, the publicly-owned section comprised almost the whole of mining, approximately 35 per cent of manufactures, 80 per cent of banking, and the whole of rail and river communications. State-ownership of railways and river shipping had existed before the war. In reviewing the relative importance of private and public enterprise, the head of the National Planning Department stated that the share of the latter in national net production averaged 35 per cent in the course of 1947–8, reaching 43 per cent by the end of this period. This statement, in view of the radical changes in the ownership of industry in spring 1948, implied that at the inception of the Plan the share of the publicly-owned section in national production was less than one-third. It was understood then in political circles that

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the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

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TIGHTENING CONTROLS

It was intended from the outset to place the conduct of business, whether of private or of public concerns, under a strict financial control. Full use was made of accountancy to examine the relation of cost and prices, and general issues of rationalization (in so far as publicly-owned enterprises were concerned), and there were investigations on special questions such as the use of loans. But financial control, as conceived in the second phase of the Three-year Plan, went far beyond the limits of elaborate accountancy. The reshaping of the entire banking system, started in the second quarter of 1948, was designed to establish a permanent current control of every move of the enterprises.

The so-called single-account system was introduced to the end of organizing a huge unified financial department for all public enterprises and for those private concerns specially designated. Each had to open an account with the National Bank, through which receipts and expenditure and financial operations of every description had to pass. In order to ensure a closer control, the single account was sub-divided in accordance with the various items of the financial plans (raw materials, wages, taxes, investments, etc.). The National Bank, therefore, was in a position, by comparing receipts and disbursements with the financial plan of the enterprise concerned, to exercise a continuous check upon its conformity with the Plan. Evidently the whole complicated system was drawn up to ensure control in pursuance of the Plan. Instructions from the holders of the accounts are carried out by the National Bank in so far as they are found to be in accordance with their respective financial plans. Outlays will be allowed only if they accord with the relevant estimates. Moreover, the National Bank is given discretion to transfer, without the instructions of the holder of the account, amounts due for taxes or for any other liability. If he has not a balance sufficient to meet his liabilities at maturity, the debtor is required to pay a penalty at the rate of one per thousand per day on the arrears.

This system of supervision precluded the possibility of granting a credit or of borrowing, except through the instrumentality of the National Bank. Thus a credit monopoly was conferred on the Bank, and not only was any other source of credit excluded, but suppliers were even prohibited from allowing deferred payment to their customers. The National Bank had to be notified of the sale-purchase, in order to debit immediately the ingle account of the buyer, and to credit that of the seller.

As to the question to what extent this absurdly rigid system

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worked, the scanty reports leaking out after 1948 indicate that its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

Special Investment Control

Imperfect synchronization of the delivery of capital goods with the rhythm of plant expansion was a difficulty hard to overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

The Investment Bank was in charge of the permanent control of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

The control of investment in agriculture and small-scale industry was handed over to the National Credit Institute of

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EXPLORATIONS AND DISCOVERIES

in the Medjumurje (Murakőz) area, and south of the Drava River at Ludbreg, at Pogancec, and at Pitomaca; and at Ivanic and Mikleuska and Bujavica and Peklenica. Peklenica and Mikleuska were prospected around 1850. 315 [135]

In 1860 a plant at Anina in Transylvania began distilling oil from bituminous shales. A second plant was added in 1867, and production reached 900 to 1,000 tons of crude oil a year, distilled from 15,000 to 20,000 tons of shale. These plants were abandoned in 1882. Similar plants distilled oil and asphalt from the above-mentioned tar sands at Derna and Tătăraş. These sands contained 11 to 15 percent tar, which was washed out of the sand and then distilled. By 1906 these plants had produced 25,300 tons of oil and 45,400 tons of asphalt. The annual rate thereafter was 2,000 to 2,500 tons of oil and 4,000 to 5,000 tons of asphalt.

From 1881 to 1893 many shafts were sunk and many wells drilled near surface oil occurrences. Some shafts were 300 feet deep, and one reached 1,800 feet, but none tapped commercial oil pools.

To encourage continued exploitations in the face of these failures, the Hungarian government began in 1894 to subsidize the search for oil. By 1903, seventy thousand dollars of public funds thus invested resulted in oil production from two small pools, the first discovered at Selnice and the second at Peklenica. These small strikes called attention to the Medjumurje area, however, and a delayed return on the public investment came in the form of important oil fields later discovered on the same geological trend. [654]

In 1907 the government ceased to subsidize private operations and began to undertake its own explorations.

Until 1911 oil resources were open to private exploitation, subject to government regulation. The same was true of natural gas.[51] But Section VI, 1911, of the Hungarian law declared a state monopoly on natural hydrocarbons: bitumen, oil, gas, tar, asphalt, and ozocerit. The law 655 315

51 [for footnote, cf. Cat. 116, pp. 51-52--Analyst]

EXPLORATIONS AND DISCOVERIES

315 The law[1]
[655] gave the government the right to grant concessions to
[471] individuals or private companies for limited areas and limited time periods.

In the years following, several Hungarian and foreign companies operated under this law. The first was the Hungarian Carpathian Petroleum Company, Ltd. (Magyar Kárpáti Petroleum R.T.), which acquired the Iza Valley concession. In 1911 its exploratory well No. 4 struck oil at 1,506 feet in Săcel (Izaszacsal). For some time about 100 barrels of oil flowed daily from this well. Additional wells were drilled in the vicinity, some resulting in similar oil flows.

Explorations ceased from the time the Treaty of Trianon awarded the area to Romania in 1920, and were renewed after 1940, when Hungary temporarily recovered Northern Transylvania.

Transylvanian Gas Fields

315 In 1909 a very important gas field was discovered at Sărmaş (Sármás) in Transylvania. Gas seepages and salt water springs in the vicinity prompted a detailed geological survey. However, the first well, drilled southeast of Sărmaş as a result of this survey, sought not hydrocarbons, but potash, needed in Hungary for fertilizer.

No potash was found, but the well penetrated several sand strata that yielded salt water and some gas. A stratum between 1,509 and 1,542 feet produced water containing 7 percent salt. At 2,031 feet this well was abandoned and a second started at Sărmaş, still in search of potash. Important gas shows were noticed very soon. At 300 feet a strong gas blow handicapped the drilling. At 525 feet the well blew out, and it was with considerable difficulty that drilling was resumed. At 990 feet the strong blowing of gas between the drill stem and casing made further progress practically impossible. The well could not be closed since it had been drilled for potash, and therefore the casings were not cemented, nor were the individual gas sands sealed. For two years it blew about 25 million cubic feet of gas

[1] [i.e. the oil resources law of 1911 — Analyst]